
Government of the District of Columbia



Department of Consumer and Regulatory Affairs

Testimony of

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Public Roundtable

Consumer Protection in the District of Columbia

Committee on Public Services and Consumer Affairs

Honorable Mary Cheh, Chair

Council of the District of Columbia

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Good afternoon Chairman Cheh and members of the Council. For the record, I am Bob E. Harris, Manager of DCRA's Office of Consumer Protection. It's my pleasure to accompany Director Argo today to provide specifics on the overview you just received.

I'm grateful to have had the opportunity to be part of the efforts to revitalize the office and fulfill its mandates. Our staff has prepared a Powerpoint display, which I'll refer to throughout my testimony.

It's important to remember that we're still near the beginning of a long process: just gathering all the puzzle pieces has taken awhile.

Statistics show that the District has led the country in frauds perpetrated against its people -- and was the second highest for Identity Theft. In fact, the Federal Trade Commission's Consumer Sentinel complaint database and The National Consumers League Fraud Center reported consumer fraud near pandemic levels here in the District.

As Director Argo, has testified, DC consumers have recently lived through a period in which there was no agency broadly responsible for consumer protection. The lack of a central processing point for consumer protection complaints and the lack of concentrated efforts on daunting problems such as automobile repair fraud or home improvement scams, left a vulnerable constituency in need of consumer education and basic consumer protection -- against a broad spectrum of consumer fraud.

With the office's reconstitution and the Council's restored vision in consumer protection laws, we are again a vital service.

- Dcra.dc.gov was redesigned to house consumer education information, including *Consumer Protection – Home Improvement Contractors Fact Sheet (Información Sobre Contratistas De Renovación De Viviendas)*; and *Consumer Protection–Auto Repair Fact Sheet (Información Sobre Talleres De Reparación De Carros)*.

To meet the Council's consumer protection mandates, we initiated educational outreach on these two important issues in Fiscal Year 2006.

Investigators were hired to respond to consumer protection complaints. These professionals are former police officers, regulatory investigators, and customer service specialists from the Office of the Attorney General and the department. Through intensive training, they've become consumer protection investigators, mediators, and specialists.

We quickly set about becoming the District's clearinghouse for consumer protection complaints. We devised a system to begin immediately reviewing, evaluating, investigating, referring violations discovered from these complaints, and educating *everyone* on consumer protection issues: the public, consumers, businesses, other agencies, DCRA colleagues and staff.

We sorted out the processes for consumer complaints which may lead to business investigations and consumer protection complaints: they're different.

For example, let's say someone checks out "ABC Corporation" on our Basic Business License site, and finds it's not licensed to do home improvement contracting in the District -- and the potential customer hasn't engaged that company to do work, signed anything, or paid any money. There's no grounds for a consumer protection complaint – but that inquiry should be investigated by our Business Investigations staff.

On the other hand, a consumer who lives in the District, paid "XYZ Company" \$20,000 to renovate a kitchen two months ago, and hasn't seen him since, has a bona fide consumer protection complaint. They've been directly victimized – in fact, by one of the most prevalent scams of the moment.

Our charge, under the Consumer Protection Procedures Act (CPPA), is to help everyone who has done business in the District and has, as a result a consumer complaint, no matter where they live.

Of course, we aim to serve District residents and customers first. But, we've worked out agreements with other agencies and developed quite a nice referral network to smooth the way for complaints to get to the right places.

One our first agreements was with the Community Information and Referral Center in the Superior Court's Multi-Door Dispute Resolution Division – after we found that most consumers have turned to the Office of Consumer Protection office as a first line of defense. By partnering with Multi-Door, we can assure that they continue to do so.

A complaint that moves through our rather simple case management process to the point where a violation is found to have occurred is referred for enforcement along a track developed within DCRA, with one of our chief partners, the Office of the Attorney General. We provide investigative support to them and they get enforcement

referrals of CPPA violations from us. We refer regulatory violations to the appropriate DCRA area and criminal violations to the US Attorney.

Our office provides three major services:

- Consumer education
- Investigation and enforcement of unfair business practices, and
- Alternative resolution to consumer complaints.

In Fiscal Year 2007, we processed and referred, mediated or investigated more than 700 consumer protection complaints, recovered over \$260,000 consumer funds, and initiated seven criminal prosecutions.

Most consumer complaints that we processed were initiated by District residents: some 366. Another 60 were citizens from Maryland and Virginia; and 50 were from other states. Just over half the businesses named in consumer complaints in '07 were actually located in the District.

Only a consumer who is an actual victim to fraudulent business practices can initiate a formal consumer complaint, according to the CPPA. Business-to-business transactions are not protected by the law.

The prevalence of complaints about businesses in other states, cities, and counties suggests a need for additional coordination with them and for further consumer education for District residents. That's why we've joined and become extensively involved in organizations like the Consumer Federation of America, the National Consumers League, the National Association of Consumer Agency Administrators, and the North American Consumer Protection Investigators. By doing so, we're better able to help our customers or refer them to agencies with which we have a level of knowledge and confidence.

We've engaged in numerous outreach and educational programs to fulfill our mandates. In July of '06, we set out to speak in each Ward over the course of nine weeks. We repeated this initiative this last summer, culminating with our appearance in Elderfest '07 at Labor

Day. So we've done outreach in each Ward at least twice in two years. This may very well have been a factor that influenced the number of complaints filed by Ward. We'll visit each Ward again this year.

We initiated workshops and events that focused on a wide variety of consumer protection issues, including financial fraud and identity theft, and targeted them to the particular event's audience or the season. The events were held in key community centers, churches, museums, libraries, and wellness centers.

We also developed and post Information and materials on the office's website.

Our early outreach activities actually lead to our partnerships with as the Office on Aging and to the initiative that formed the DC Triad.

We noticed early on that our senior citizens were being especially hurt by a large amount of consumer fraud. The question was: how could we help them reduce their risk of becoming victims?

Surrounding jurisdictions had addressed the problem successfully, and a good working model was the National Triad. In February, 2007 we joined with a dozen other partners: senior providers, law enforcement entities, and seniors themselves, to form the new DC Triad and the original **Senior and Law Enforcement Together** or SALT Council. We launched the event with a televised senior fair and reverse boiler room. The SALT Council Outreach group has led the way in devising educational opportunities for seniors, like “File for Life.” This effort will pave the way for a comprehensive “elder fraud” program.

LifeSmarts is a program run by the National Consumers League (NCL) -- a consumer education “Battle of the Brains” that tests teens in grades 9-12 on personal finance, health and safety, the environment, technology, and consumer rights and responsibilities. Students log on, take practice quizzes, and form teams to compete first online, and then at the state level, for a chance to go to the national competition, which will be held in Minneapolis, April 2008. The Office of Consumer Protection has pledged its full support to this year’s DC Coordinator, Rebecca Bankhead of the University of the

District of Columbia, and has dedicated itself to the success of LifeSmarts here in the District of Columbia.

This will allow the office to pursue consumer education opportunities for ages 13-18 and provide a broader scope for future initiatives. It is also a fantastic community outreach, public service program for our office.

The office conducted several proactive operations to capitalize on our original mandates, focused on our initial consumer protection priorities of home improvement and auto repair fraud. Each included undercover case work and an intense consumer education campaign.

- Operation NailGun focused on home improvement contracting scams. We put regulatory and consumer protection investigators in a house which was certified by DCRA as having few or no defects. The undercover staff posed as homeowners and asked contractors to give estimates on small home improvement projects (about \$20,000). Would-be contractors who made bad-faith estimates or claims of about needed repairs were

confronted on the spot by regulatory investigators and the Metropolitan Police; and given notice of infractions for violations. Bad actors in the market place were punished to the tune of \$8000 in fines.

- Operation PIT Bull was the result of a 2-month long investigative campaign. We monitored the 1000, 1100 and 1200 blocks of Bladensburg Road -- where numerous auto repair shops, used car lots and hand car wash businesses are clustered. Through specialized surveillance by the Proactive Investigations Teams, we determined that many of these businesses did not have Basic Business Licenses and, in some cases, did not have the proper Certificates of Occupancy.

We formed field teams to raid the sites and conduct inspections necessary for a broad spectrum of enforcement, by including professionals from sister agencies:

Department of Motor Vehicles

Department of Public Works

Department of Transportation

Metropolitan Police Department, and

Office of Tax and Revenue.

For specialized training, staff attended certificate courses hosted by the Internal Revenue Service (National Phone Forum ID Theft), the United States Department of Agriculture (Legal Investigation, Alternative Dispute Resolution) and conferences sponsored by the North America Consumer Protection Investigators' and National Association of Consumer Agency Administrators.

ID Theft and internet fraud are expected to remain the top threats to consumers -- but several new issues are looming large:

- Fake check scams,
- the digital television transition,
- the potential monopolization of after-market auto part sales, and
- an onslaught of predatory lending.

We have to prepare to tackle these issues now.

Nationally, broadcasters are preparing for the federally-mandated switch from analog to digital television (DTV) broadcasting scheduled

for February 17, 2009. DTV has been represented as offering many consumer advantages, including crystal clear pictures and CD-quality sound, multiple programming choices, HDTV and interactive options.

But:

- Consumers who have only analog-based TVs -- about 65,000 in DC -- won't be able to view programming on their perfectly good television product on February 18, 2009.
- Vulnerable, less savvy consumers will be exposed to fraudulent solution sellers.

The Office has joined the national coalition to devise solutions.

Generic auto body parts, also known as crash parts, are sheet metal components such as hoods, fenders and doors, which get the most damage in auto accidents. (The industry term is "after market" parts.)

Hundreds of thousands of accidents cause damage to these parts each year. Repair and replacement of these parts is an important revenue source for auto body repair shops and parts manufacturers themselves.

Before 1970, auto body repair shops could only buy these replacement parts from auto manufacturers. Then, independent manufacturers began making after-market parts: repair part prices dropped considerably. That was great for consumers – and it let us drive our cars longer, especially following a minor accident. But that marketplace is being threatened by moves to monopolize after-market parts through competition buy-outs, poor labor management, and patent regulation abuse. If consumer protection agencies don't respond to these threats, consumers will pay higher costs.

We are working proactively with a multi-jurisdictional taskforce to find a jurisdiction with strict anti-trust or consumer protection laws, through which the Federal Trade Commission can prosecute a case. Setting a national legal precedent against generic parts monopolies serves the best interests of some of our businesses (insurance, mechanics, and parts manufacturers) as well as consumers.

The national housing bubble burst has brought new consumer fraud challenges. Those sub-prime market numbers were exceptionally high here in the District: there will be considerable fall-out from

ancillary schemes such as foreclosure mitigation and third-party mortgage foreclosure schemes.

A number of agency partners, led by one of our great area partners, the Center for Responsible Lending, helped with the research and published the *High Cost of Being Poor in the District*. We're not alone crying out about how the alternative financial services market will continue to siphon limited funds from people at the lowest economic rungs in the District.

The level of harm is serious: an impediment to basic sustenance. For instance, there will be a sharp increase in credit card fraud and credit repair schemes as the tighter financial market encourages the use of credit cards to pay basic bills. As they struggle to become more technologically savvy, the ugly specter of Internet fraud, cyber crime, and work-at-home schemes will rise. Our office must strengthen partnerships and initiate new cooperative efforts to rise to the challenge to help these that can afford least of all to be victimized.

As DC's clearinghouse for consumer protection complaints, we'll have to be prepared to address the full spectrum of consumer issues.

State-of-the-art training and certification of our consumer protection professionals to prepare them to handle, process, and investigate these issues is paramount. The office is continuing to work with organizations to develop specialty training for certified consumer protection investigators and alternative resolution/mediation professionals. We've successfully negotiated to host an international training session here in the District.

We'll need resources to render top-quality services. Providing highly trained and motivated professional consumer protection staff, up-to-date systems, computer-enhanced phone (to count and route phone calls by topic), and industry-standard training to keep abreast of this ever-changing field are all essential to the future of the office and consumer protection in the District.

Thank you very much for this opportunity to share information with you. As you may be able to tell, I am very enthusiastic about this subject. I'd be honored to answer any questions you might have.